

SEYCHELLES

Key conditions and challenges

Table 1 2019

Population, million	0.1
GDP, current US\$ billion	1.6
GDP per capita, current US\$	16752.4
Lower middle-income poverty rate (\$3.2) ^a	3.1
Upper middle-income poverty rate (\$5.5) ^a	7.0
Gini index ^a	46.8
School enrollment, primary (% gross) ^b	100.4
Life expectancy at birth, years ^b	72.8

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2013), 2011 PPPs.

(b) Most recent WDI value (2018).

Real GDP in Seychelles is projected to decline by double digits in 2020 due to COVID-19 and the reliance of the country on tourism. In the medium-term, economic growth is expected to rebound, but the fiscal burden attached to the government's response package is expected to linger and substantially delay the country's ability to reach its debt target. Poverty is expected to increase in 2020 due to the impact of COVID-19.

Seychelles continues to grapple with the impact of COVID-19 on its economy as the implementation of strict measures to contain the spread of the virus causes spillovers in the travel industry. The Government of Seychelles responded to the effect of COVID-19 on the economy with measures to mitigate the economic fallout on businesses and households. In addition, the government requested emergency financing from the IMF (US\$31.5 million), African Development Bank (US\$ 10 million) and the World Bank (US\$15 million) which were approved on May 8, 2020, June 23, 2020 and June 25, 2020, respectively.

Absolute poverty in Seychelles is low (at 7 percent in 2013) when measured against the high-income poverty line of USD 5.5 a day per capita. Inequality, however, is significant with a Gini coefficient of 0.47. The country's very generous social protection system is not addressing inequality in a cost-efficient manner and has shortcomings in setting incentives for formal labor market participation, while rapidly spreading drug use is imposing an increasing human and economic cost. Rising labor demand has been met by a surge in expatriate workers in recent years as labor force participation of Seychellois at 65 percent in Q3 remains rather low and is declining (70 percent in 2014).

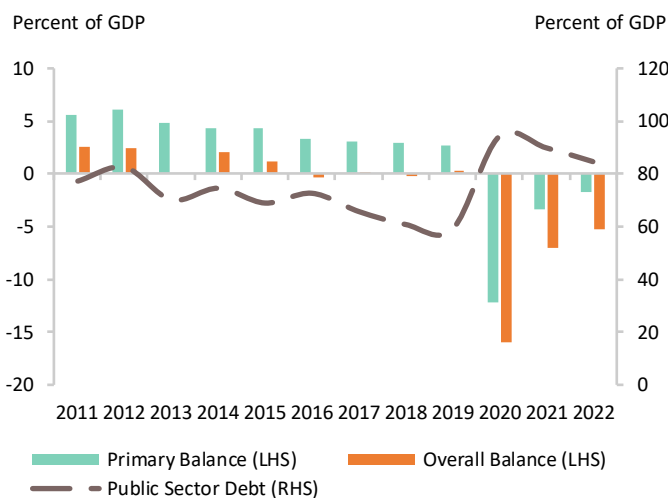
Contingent liability poses significant risks. State-owned enterprises in Seychelles

have substantial debt, amounting to approximately 13 percent of GDP (IMF PCI 2019), including non-guaranteed debt to state-owned enterprises. The weak financial position of Air Seychelles has been exacerbated by COVID-19. Air Seychelles has requested US \$15 million from the government to pay its debt incurred from two bonds procured by Etihad Airline. The airline has already received assistance of R109 million to guarantee its employees' salaries until December 2020 and planned annual budget transfers over the next five years account for US\$6 million (0.4% of GDP).

Recent developments

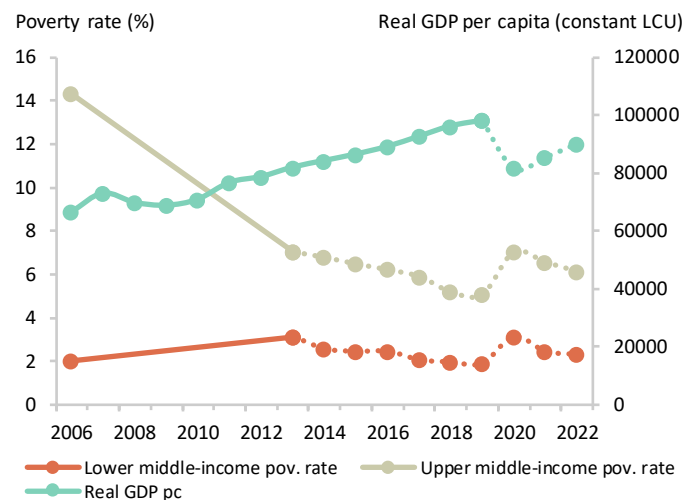
Economic growth in 2020 is expected to decline to -15.9 percent as tourist arrivals are projected to decline by more than 60 percent. The fall in tourism activities will have a domino effect on other sectors. To improve short run liquidity, the Central Bank of Seychelles loosened the monetary policy rate in Q3 2020 from 4.0 percent to 3.0 percent. The inflation rate for 2020 is projected at 3.9 percent due primarily to the depreciation of the domestic currency (30.7 percent since January 2020). The current account deficit is expected to reach 28.3 percent of GDP in 2020 and gross international reserves (GIR) are estimated to decline from US\$500 (6.0 months of imports) to around US\$339 million by end-2020, equivalent to only 2.7 months of imports. As at July 2020 (January to July), total revenue collection underperformed the budgeted revenue collection by 16 percent.

FIGURE 1 Seychelles / Fiscal balance and public sector debt



Sources: WDI and staff estimates

FIGURE 2 Seychelles / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Expenditures are expected to increase drastically due to higher spending associated with the government's COVID-19 response package. Consequently, the fiscal deficit is expected to increase to -16.0 percent of GDP in 2020. Seychelles' debt to GDP ratio is expected to increase to 94.3 percent of GDP in 2020 due to the shocks (GDP and exchange rate) of the pandemic. Negative growth in 2020 is expected to take a toll on poverty reduction in Seychelles. Vulnerable households linked to economic sectors affected by COVID-19 face a substantially elevated risk of falling into poverty, at least in the short-run. While the full impact of COVID-19 on poverty in 2020 is not yet known, poverty is projected to rise to 7 percent in 2020. The unemployment rate in Seychelles jumped to 4.8 percent in the first quarter of 2020, from 2.3 percent in the last quarter of 2019. In the second quarter of 2020, the unemployment rate is expected to increase. However, job loss is expected to be mitigated by the financial assistance for job retention program implemented by the government of Seychelles.

Outlook

Economic growth is expected to remain subdued in the medium-term as global

tourism remains on a standstill and consumption remains subdued. A recovery of the domestic economy to pre-COVID-19 levels is conditional on a rebound of the global economy and a revival of the travel industry. As such, the reduction in economic activity is expected to persist in the short to medium term.

The fiscal deficit is expected to contract over the medium-term, as the increase in spending associated with COVID-19 subsidies and revenue collection rebounds. The increase in revenue collection will be driven by a resumption of economic activities, although generous loss-carry forward provisions and gradual recovery in tourism will likely continue to suppress VAT and business tax collection below pre-crisis levels for several years to come. This recovery in revenue is below the pre-COVID projections and revenue will not reach pre-COVID 2019 levels until 2025, in line with the recovery path of the tourism sector. Meanwhile, expenditure is projected to remain higher than pre-crisis levels in 2021 due to increase capital spending (this might not materialize due to execution constraints). The debt to GDP ratio would remain above the debt target <50 percent of GDP in the medium-term (that was to be reached by 2021), by several years.

Poverty is projected to slowly continue to decline to 5 percent by 2022 (\$5.5 a day

per capita line), following an increase to 7 percent in 2020 due to COVID-19. Inequality is expected to increase due to COVID-19 and continue to increase in the medium-term if underlying challenges are not addressed. The 2018 household budget survey is expected to deliver a much-needed update on the most recent trends in poverty and inequality.

TABLE 2 Seychelles / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.3	4.1	2.0	-15.9	3.1	3.8
Private Consumption	14.8	3.3	4.8	-13.6	9.1	5.0
Government Consumption	6.3	8.8	-0.2	3.9	0.2	-3.2
Gross Fixed Capital Investment	-2.2	3.8	-2.7	-37.9	29.0	9.7
Exports, Goods and Services	9.6	2.9	2.0	-40.8	31.5	7.2
Imports, Goods and Services	11.6	4.0	0.9	-38.2	38.2	6.5
Real GDP growth, at constant factor prices	3.9	4.1	1.8	-15.9	3.1	3.8
Agriculture	3.3	0.9	1.1	0.7	0.9	1.3
Industry	-2.2	2.4	2.1	1.8	1.7	2.5
Services	4.8	4.4	1.7	-18.5	3.4	4.0
Inflation (Consumer Price Index)	3.5	3.7	2.0	3.9	2.9	2.9
Current Account Balance (% of GDP)	-20.7	-19.6	-18.8	-28.4	-28.1	-28.2
Net Foreign Direct Investment (% of GDP)	18.2	17.2	17.7	4.2	14.7	16.6
Fiscal Balance (% of GDP)	0.0	-0.2	1.0	-16.0	-7.2	-5.3
Debt (% of GDP)	63.9	59.7	58.7	94.3	91.6	87.8
Primary Balance (% of GDP)	3.1	2.9	3.6	-12.2	-3.2	-1.6
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	2.1	2.0	1.9	3.1	2.5	2.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	5.9	5.2	5.1	7.0	6.6	6.1

Source: World Bank, Poverty & Equity and Macro economics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2013-HBS. Actual data: 2013. Nowcast: 2014-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2013) with pass-through = 1 based on GDP per capita in constant LCU.